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NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

Producers 88 (4-89) — Paid Up With 640 Acres Pooling Provision

PAID UP OIL AND GAS LEASE (No Surface Use)

THIS LEASE AGREEMENT is made this <u>25th</u> day of <u>July</u>, <u>2008</u>, between <u>KENNETH CHEUNG AND WIFE, SUSAN CHEUNG</u>, <u>3902 Coulter Ct, Arlington Tx 76016</u> as Lessor, and <u>PALOMA BARNETT, LLC</u>, <u>1021 Main Street, Suite 2600, Houston, Texas 77002-6066</u> as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

0.242 acres, more or less, situated in the T H Watson Survey, A-1689, and being Lot 28, Block 1, of Parker Oaks Estates, an addition to the City of Arlington, Texas, Tarrant County, according to the map or plat thereof recorded in Volume 388-199, Page 45, Plat Records, Tarrant County Texas, and being more particularly described in that WARRANTY DEED dated January 27, 1987 from ROSS-MCCLAIN, INC., ACTING HERIN BY AND THROUGH IT'S ONLY AUTHORIZED OFFICER, SUZANNE HENDERSON COUNTY CLERK TARRANT COUNTY FORT WORTH, TEX to KENNETH CHEUNG AND WIFE, SUSAN CHEUNG and recorded in Volume 8809, Page 344 of the Official Public Records of Tarrant County, Texas.

Jainvary 6, 1987 in the County of TARRANT. State of TEXAS, containing 0.242 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term 'gas' as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less more or less

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty-five percent (25.00%) of such production, to be delivered at Lessee's option to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be twenty-five percent (25.00%) of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production at the prevailing in the same field, then in the nearest field in which there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered

by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royally shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royally shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royally payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at lessor's address above. Or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders name were made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the US Malis in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereinder, Lessor shall, at Lessee's request, deliver to Lessee a prore refuse to accept payment the removement, lessor shall, at Lessee's request, deliver to Lessee a prore refuse to accept payment the removement, excessed and the state of the production of the lessee for the production of the lessee of production of the lessee of production of the lessee of the production of the lessee of the production of the lessee of production of the lessee of the production of the lessee of production of the lessee of the production of the lessee of the production of the lessee of the l

quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on

any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to mineral estate in such part of the leased premises.

8. The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order. In the event of the death of any person entitled to shut-in royalities hereunder, Lessee may pay or tender such shut-in royalities to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalities hereunder, Lessee may pay or tender such shut-in royalities hereunder, Lessee may pay or tender such shut-in royalities to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferse to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shul-in royalties hereunder shall be divided between Lessee and the transferee in proportion to

the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall

be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to canals, pipelines, tanks, water wells, disposal wells, nijection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter. term of this lease or within a reasonable time thereafter.

term of this lease or within a reasonable time thereafter.

11. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabolage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupled

are so prevented, delayed or interrupted.

12. In the event that Lessor, during the primary term of this lease, receives a bona fide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land described herein, with the lease becoming effective upon expiration of this lease, Lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the name and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of fifteen days after receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer

13. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is

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given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

14. For the same consideration recited above, Lessor hereby grants, assigns and conveys unto Lessee, its successors and assigns, a perpetual subsurface well bore easement under and through the leased premises for the placement of well bores (along routes selected by Lessee) from oil or gas wells the surface locations of which

easement under and through the leased premises for the placement of well bores (along routes selected by Lessee) from oil or gas wells the surface locations of which are situated on other tracts of land and which are not intended to develop the leased premises or lands pooled therewith and from which Lessor shall have no right to royalty or other benefit. Such subsurface well bore easements shall run with the land and survive any termination of this lease.

15. Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-n royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

16. Notwithstanding anything contained to the contrary in this lease. Lessee shall not have any rights to use the surface of the leased premises for deiling anything contained to the contrary in this lease. Lessee shall not have any rights to use the surface of the leased premises for deiling anything contained to the contrary in this lease.

16. Notwithstanding anything contained to the contrary in this lease, Lessee shall not have any rights to use the surface of the leased premises for drilling or other operations.

Lessor, and their successors and assigns, hereby grants Lessee an option to extend the primary term of this lease for an additional period of two (2) ears from the end of the primary term by paying or tendering to Lessor prior to the end of the primary term the same bonus consideration, terms and conditions as granted for this lease.

DISCLAIMER OF REPRESENTATIONS: Lessor acknowledges that oil and gas lease payments, in the form of rental, bonus and royalty, are market sensitive and may vary depending on multiple factors and that this Lease is the product of good faith negotiations. Lessor understands that these lease payments and terms are final and that Lessor entered into this lease without duress or undue influence. Lessor recognizes that lease values could go up or down depending on market conditions. Lessor acknowledges that no representations or assurances were made in the negotiation of this lease that Lessor would get the highest price or different terms depending on future market conditions. Neither party to this lease will seek to alter the terms of this transaction based upon any differing terms which Lessee has or may negotiate with

IN WITNESS WHEREOF, this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor

LESSOR (WHETHER ONE OR MORE)

Kenneth

ACKNOWLEDGMENT STATE OF TEXAS **COUNTY OF TARRANT** This instrument was acknowledged before me on the y <u>Kenneth Cheung</u> CARL J. OLIVIERI Notary Public State of Texas Notary's name (printed): Notary's commission expires: **Notary Public** STATE OF TEXAS My Comm. Exp. Apr. 04, 2012 **ACKNOWLEDGMENT STATE OF TEXAS COUNTY OF TARRANT** by <u>Susan Cheung</u> This instrument was acknowledged before me on the CARL J. OLIVIERI Cotary Public unito state of Texas name (printed): commission expires: Notary P Notary's My Comm. Exp. Apr. 04, 2012 expires: CORPORATE ACKNOWLEDGMENT STATE OF TEXAS COUNTY OF TARRANT This instrument was acknowledged before me on the _ ___ day of ___ _, 20___, by_ of _corporation, on behalf of said corporation. Notary Public, State of Texas Notary's name (printed): Notary's commission expires: RECORDING INFORMATION STATE OF TEXAS County of TARRANT This instrument was filed for record on the ____ _ day of ___ o'clock ____M., and duly _, at _

records of this office.

__, of the ___

recorded in

Ву_

Instrument Number::